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RUEHBU/AMEMBASSY BUENOS AIRES 1752
RUEHLP/AMEMBASSY LA PAZ 2762
RUEHPE/AMEMBASSY LIMA 1038
RUEHSP/AMEMBASSY PORT OF SPAIN 3584
RUEHQT/AMEMBASSY QUITO 2853
RUEHSG/AMEMBASSY SANTIAGO 4066
RUEHDG/AMEMBASSY SANTO DOMINGO 0585
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RHEBAAA/DEPT OF ENERGY
RUCNDT/USMISSION USUN NEW YORK 0991
RUCPDO/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 000660

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD
NSC FOR JSHRIER

E.O. 12958: DECL: 05/14/2018
TAGS: [ECON](#) [ENRG](#) [EPET](#) [EINV](#) [VE](#)
SUBJECT: BP EYES EXPANSION DEAL

REF: A. CARACAS 617

[1](#)B. CARACAS 598

Classified By: Acting Economic Counselor Shawn E. Flatt for Reason 1.4
(D)

[1](#)1. (C) SUMMARY: BP hopes to sign an agreement for a major expansion of the Petromonagas extra heavy oil joint venture in the Faja this summer. Despite its optimism, it expects the BRV to postpone the auction of Faja blocks due to a lack of interest on the part of transnational oil companies. PDVSA unilaterally decided to change the composition of Petromonagas' syncrude. The joint venture's pipeline has been derated due to corrosion and it was forced to completely shut down operations at its upgrader recently due to a recent nationwide power outage. END SUMMARY

EXPANSION DEAL IN THE WORKS

[1](#)2. (C) Petroleum Attache (Petatt) met with BP Venezuela president Joe Perez (strictly protect throughout) on May 14 to discuss the current state of operations at the Petromonagas extra heavy oil joint venture in the Faja. Perez began the conversation by stating that BP's CEO recently met with Energy Minister Rafael Ramirez in Rome to discuss a deal to expand Petromonagas' operations. Perez stated BP hopes to sign an expansion deal this summer and begin expansion studies shortly thereafter. (COMMENT: It appears that a key meeting between the BRV and BP is scheduled to take place on July 4. As Petatt was leaving, he casually mentioned that he hoped to see Perez at the Embassy's July 4 celebration. Perez replied that he was not sure he could attend since BP senior executives would be visiting Venezuela on that date. END COMMENT)

[1](#)3. (C) Despite BP's optimism over expansion plans, Perez believes the BRV will push back its plans to auction off extra heavy crude oil blocks in the Faja. The auction is currently scheduled for the second quarter of this year. Due

to confusion over the terms of the new windfall profits tax as well as general unease of the investment climate, Perez does not think that any serious oil companies are interested in investing billions of dollars in extra heavy crude oil projects in Venezuela. He opined that PDVSA and the BRV had polled companies and were shocked when they expressed little or no interest in participating in the auction. He believed PDVSA would continue pushing the auction off each quarter for the foreseeable future.

INCREASING THE API AT PETROMONAGAS

13. (C) When asked about the decision to raise the API of Petromonagas' syncrude to 18 API (Reftel A), Perez stated PDVSA made the decision unilaterally without considering the commercial consequences. (NOTE: The API scale is a measure of the density of liquid petroleum products. A higher number denotes a lighter product. END NOTE) The rationale for the decision was the belief that it would be easier to place the higher API oil on the markets. He added that PDVSA did not calculate whether the increase in quality made up for the consequent shrinkage in volume. When upgraders raise the API of their production, they lose a certain amount of the oil in the upgrading process. An international oil company would have computed the amount of lost revenue due to shrinkage as the result of raising the API from 16 to 18 and then compared it to the additional revenue gained from the higher price of 18 API oil. PDVSA never made any of these calculations.

14. (C) Perez stated Petromonagas was able to raise the API
CARACAS 00000660 002 OF 003

of its crude without resorting to mixing its output with lighter crudes. He explained that there was sufficient flexibility in the upgrader's cokers so that it could raise the API by simply making adjustments to the cokers. This was possible in part due to a reduced flow rate from the field to the upgrader. Perez implied that the reduced flow rate into the upgrader stemmed from lower field production due in part to header problems at one well. Production at the well was halted for 8 hours while repairs were carried out. He stated field production will increase once new wells are drilled. He did not supply any details on Petromonagas' drilling program.

15. (C) Perez believed there is still sufficient flexibility in the upgrader's cokers to increase the API of Petromonagas's syncrude to 20 as Energy Minister Ramirez has publicly stated (Reftel A). However, he stated the flexibility will disappear once flows into the upgrader reach full capacity.

16. (C) Perez stated Petromonagas has always had the flexibility to raise the API of its crude via adjustments to its cokers. When ExxonMobil ran the upgrader, it made a conscious decision not to raise the API since it could reach the same results at the Chalmette refinery which took the majority of the crude. Perez believed both ExxonMobil and PDVSA would be better off if PDVSA resumed shipments of Petromonagas crude to the Chalmette refinery. He opined that Exxon was losing some money running Maya crude at the refinery and PDVSA was better off under the old supply contract. However, he stated PDVSA has made it clear that it will not send crude to Chalmette as a matter of principle even if Exxon asked for a resumption in deliveries.

WHERE IS AN INTELLIGENT PIG WHEN YOU NEED ONE?

17. (C) When asked if the pipeline which handles crude destined for the Petromonagas and Petropiar upgraders had been derated (Reftel A), Perez stated yes. (Note: Derating refers to the lowering of pressure in a pipeline. A lowering of the pressure in a pipeline results in a reduced volume of oil passing through it. END NOTE). He stated the pipeline

had been derated for approximately two weeks. When asked why, Perez stated there was a serious corrosion problem in one section of the pipeline. He added he thought pressure only had to be decreased when the pipeline handled Petromonagas crude due to the location of the corrosion and the nature of Petromonagas's crude. He did not believe pressure was reduced when the pipeline handled Petropiar's crude. Perez stated PDVSA planned to use an intelligent pig in the next two weeks to determine the extent of the corrosion problem. (NOTE: An intelligent pig is a tool fitted with sensors that is sent through a pipeline to determine the condition of the pipe. Pigs can also be used to clean out pipelines. The device owes its name to the fact that early examples made a sound like a squealing pig as they traveled through pipelines. END NOTE).

MAINTENANCE

18. (C) Perez stated he believes maintenance is being carried out at Petromonagas. However, he later admitted that BP still does not have any operational personnel at the upgrader. He said he hopes to remedy the situation in the near future. He based his belief that maintenance is being performed on the fact that the maintenance orders are being generated by an automated system as well as what he has seen when he has visited the upgrader. He also noted that the upgrader was forced to shut down during the recent

CARACAS 00000660 003 OF 003

nation-wide blackout (Reftel B).
DUDDY